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Financial Markets

Irving Trust

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Interest rates generally backed up over the week, especially in the short-term sector, as opinion spread that the Fed had not eased its policy stance. The basic reason for the reversal of attitude is that there is no real evidence that the Fed has budged from the 9% lower limit on the weekly average Federal funds rate. This view received further support this week when Anthony M. Solomon, President of the Federal Reserve Bank of New York, made a speech in which he indicated that fiscal stimulus to the economy now would be premature. Thus it seemed increasingly likely that further easing might come only after the next meeting of the Federal Open Market Committee on July 9. Since many participants had priced securities recently on the assumption that either the Fed already had eased or that it would do so imminently, the changed appraisal of the Fed's posture caused retail demand to stall. That, together with heavy dealer positions and the generally negative "carry" involved in financing them, forced rates to back up. The impact has been most severe in the Treasury bill sector, where the rates on the 91-day bill have increased over 100 basis points since a 6.39% rate was set in the auction on June 16.

Also contributing to the rising tendency of long-term rates was the continuing heavy calendar in the corporate and municipal markets, as well as the prospect that the Treasury's seasonally heavy financing needs in the third quarter might be even greater than anticipated. Despite some last-minute postponements, June appears likely to set a new all-time record for corporate new-issue volume (the previous record was set last month!), and the continued robustness of the calendar augurs for the pressure to be maintained in the immediate future. In the municipal sector the calendar is also heavy, while retail demand is relatively weak, particularly in the longer maturities. The result has been rising rates and dealer inventories at their highest levels in 1980. All of this sets the stage for further increases in long-term rates unless the Fed eases soon.

The unrealistic and irresponsible Federal debt ceiling has created substantial problems for the Treasury and probably the Federal Reserve. The Treasury has been forced to curtail the size of several planned offerings and has reduced its deposits at the Federal Reserve substantially (by a $1 billion average in the week ending June 11, and $861 million in the week ending June 18). Such deposit reductions add reserves to the banking system and can complicate the Fed's reserve-management task if they are not known in advance. They may well have played a role in the occasional softness of the funds rate in recent weeks, since they probably contributed to greater availability of reserves than the Fed was projecting.

Since the Fed took no action today to indicate a change in its policy stance, it probably will wait until the July 9 FOMC meeting before considering further initiatives.

William C. Melton

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Market Yields

	6/27/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	12.00%	12.00%	11.50%
Effective since	6/13/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	9.50
Federal Funds	9.38	9.38	10.25
Repurchase Agreements	8.00	8.50	9.20
U.S. Treasury Issues			
Bills			
3 months	7.75	6.96	9.30
6 months	8.08	7.02	9.60
1 year	8.35	7.40	9.42
Coupons			
2 years	8.90	8.59	8.98
4 years	9.22	9.00	8.70
7 years	9.40	9.25	8.68
10 years	9.82	9.47	8.80
Long Bond	9.93	9.54	8.83
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.75	8.75	9.90
3 months	8.75	8.50	9.90
6 months	8.80	8.25	9.90
1 year	N.A.	8.00	9.90
Banker's Acceptances			
1 month	8.75	8.40	9.75
3 months	8.70	8.30	9.85
6 months	8.80	8.55	10.00
Eurodollar Deposits			
1 month	9.19	9.13	10.56
2 months	9.25	9.19	10.56
3 months	9.44	9.31	10.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.25	8.25	9.50
1 month	8.00	8.00	9.63
3 months	7.75	7.75	9.38
Bank Holding Companies			
1 month	8.00	8.38	9.75
Dealer Placed:			
3 months	8.25	8.13	9.75
New AA Corporate Utility Bond	11.50	11.00	9.70
Tax Exempt			
6 month Project Notes	4.50	3.50	4.60
1 year AAA Bond	4.60	4.90	N/A
5 year AAA Bond	5.15	5.10	N/A
20 year AAA Bond	6.90	6.80	5.80

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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